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Docket Nos. RM11-7-000

FERC sets new compensation method for regulation service

The Federal Energy Regulatory Commission (FERC) acted today to remedy undue discrimination and ensure just and reasonable rates for providers of a service that organized wholesale power market operators use to balance supply and demand and ensure the reliability of their systems.

Today's final rule involves compensation for regulation service, an ancillary transmission service that protects the grid by correcting deviations in grid frequency and balance on transmission lines with neighboring systems. Frequency regulation service is provided by generators and from storage technologies such as flywheels and electric vehicles, demand resources and possibly even residential water heaters. Adjusting the compensation for regulation service providers will recognize the amount of service resources provide, thus correcting the price signal for faster-ramping resources. This will allow market operators to take advantage of the capabilities of faster-ramping resources to improve operational and economic efficiency of the transmission system and reduce costs to consumers in organized wholesale markets.

The final rule requires organized markets to include in their tariffs a two-part market-based compensation method for regulation service. First, all cleared resources would receive a uniform capacity payment, to include opportunity costs, for standing ready to provide frequency regulation service. Second, each resource would receive a market-based performance payment for the service. This payment also would reflect a resource's accuracy of performance.

The final rule will take effect 60 days from publication in the *Federal Register*.

R-12-03

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